



Senate

General Assembly

January Session, 2009

File No. 853

Senate Bill No. 1124

Senate, April 30, 2009

The Committee on Appropriations reported through SEN. HARP of the 10th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT INCREASING THE AMOUNT OF UNAPPROPRIATED SURPLUS DEPOSITED IN THE BUDGET RESERVE FUND.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 4-30a of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2009*):

4 (a) After the accounts for the General Fund have been closed for
5 each fiscal year and the Comptroller has determined the amount of
6 unappropriated surplus in said fund, after any amounts required by
7 provision of law to be transferred for other purposes have been
8 deducted, the amount of such surplus shall be transferred by the State
9 Treasurer to a special fund to be known as the Budget Reserve Fund.
10 When the amount in said fund equals [ten] fifteen per cent of the net
11 General Fund appropriations for the fiscal year in progress, no further
12 transfers shall be made by the Treasurer to said fund and the amount
13 of such surplus in excess of that transferred to said fund shall be
14 deemed to be appropriated to the State Employees Retirement Fund, in

15 addition to the contributions required pursuant to section 5-156a, but
 16 not exceeding five per cent of the unfunded past service liability of the
 17 system as set forth in the most recent actuarial valuation certified by
 18 the Retirement Commission. Such surplus in excess of the amounts
 19 transferred to the Budget Reserve Fund and the state employees
 20 retirement system shall be deemed to be appropriated for: (1)
 21 Redeeming prior to maturity any outstanding indebtedness of the state
 22 selected by the Treasurer in the best interests of the state; (2)
 23 purchasing outstanding indebtedness of the state in the open market at
 24 such prices and on such terms and conditions as the Treasurer shall
 25 determine to be in the best interests of the state for the purpose of
 26 extinguishing or defeasing such debt; (3) providing for the defeasance
 27 of any outstanding indebtedness of the state selected by the Treasurer
 28 in the best interests of the state by irrevocably placing with an escrow
 29 agent in trust an amount to be used solely for, and sufficient to satisfy,
 30 scheduled payments of both interest and principal on such
 31 indebtedness; or (4) any combination of these methods. Pending the
 32 use or application of such amount for the payment of interest and
 33 principal, such amount may be invested in (A) direct obligations of the
 34 United States government, including state and local government
 35 treasury securities that the United States Treasury issues specifically to
 36 provide state and local governments with required cash flows at yields
 37 that do not exceed Internal Revenue Service arbitrage limits, (B)
 38 obligations guaranteed by the United States government, and (C)
 39 securities backed by United States government obligations as collateral
 40 and for which interest and principal payments on the collateral
 41 generally flow immediately through to the security holder.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2009	4-30a(a)

APP *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: Budget Reserve Fund – See Below

Municipal Impact: None

Explanation

This bill increases the amount of unappropriated surplus permitted to be transferred to the Budget Reserve Fund from the current 10 percent to 15 percent. Since any unappropriated surplus beyond the current ten percent level is used to reduce debt service, the bill potentially reduces the funds used for those purposes.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OFA Bill Analysis**SB 1124*****AN ACT INCREASING THE AMOUNT OF UNAPPROPRIATED SURPLUS DEPOSITED IN THE BUDGET RESERVE FUND.*****SUMMARY:**

The bill increases the Budget Reserve Fund's (BRF) maximum balance from 10 percent to 15 percent of the unappropriated surplus of the General Fund for the fiscal year in progress. By law, once the reserve reaches the maximum, the Treasurer is not required to transfer additional unappropriated General Fund surpluses to it. Those surpluses in excess of the 10 percent allocated to the reserve fund by law must be transferred for such purposes as to pay off state indebtedness.

EFFECTIVE DATE: July 1, 2009

BACKGROUND

Under Article 28, Section 18(c) of the Connecticut Constitution, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund (BRF) to raise the balance up to 10% of net General Fund appropriations. The resources of the BRF are invested in the Short Term Investment Fund (STIF), which has a 10-year annualized rate of return of 3.9%. If any additional surplus remains after the BRF transfer, Article 28 stipulates that it must be used to reduce bonded indebtedness. The average interest rate for General Obligation bonds is currently about 4.5%.

A currently inoperative section of the statutes ¹ requires that after

¹ The constitutional amendment became effective 11/25/92 while CGS Sec. 4-30a

the transfer to the BRF, any additional surplus must be used to reduce the unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by the reduction of bonded indebtedness. The 10-year annualized rate of return for the Connecticut Retirement Plans and Trust Funds (which includes the State Employees Retirement Fund and the Teachers' Retirement Fund) is 6.1% ².

It should be noted that PA 03-2 (the Deficit Mitigation Act) increased the maximum allowable in the BRF from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

Budget Reserve (Rainy Day) Fund Status

General Fund surpluses resulted in the following additions to the BRF: \$302.2 million in FY 04; \$363.9 million in FY 05; \$446.5 million in FY 06; and \$269.2 million in FY 07, which contributed toward a total Budget Reserve Fund (BRF) balance of \$1,381.8 million (80.5% of full BRF capacity). There was no contribution to the BRF in FY 08; PA 08-1 and PA 08-2 of the August Special Session, transferred the FY 08 unappropriated surplus of \$83.4 million to FY 09 revenue. In FY 02 the BRF was depleted when its \$594.7 million balance was used to partially cover the \$817.1 million deficit.

COMMITTEE ACTION

Appropriations Committee

Joint Favorable Report

became effective 6/10/92. Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls the use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

² The Office of the State Treasurer provided this figure for informational purposes only.

Yea 53 Nay 1 (04/15/2009)